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STATEMENT

PROPERTY CASUALTY INSURERS ASSOCIATION OF AMERICA (PCI)

ILL. No. 6163 – AN ACT CONCERNING THE TERRITORIAL CLASSIFICATIONS FOR PRIVATE PASSENGER NONFLEET AUTOMOBILE INSURANCE RATING PLANS

COMMITTEE ON INSURANCE AND REAL ESTATE

February 19, 2015

The Property Casualty Insurers Association of America (PCI) appreciates the opportunity to comment on ILL. 6163. Our comments are provided on behalf of the member companies of PCI, a national property casualty trade association with over 1,000 member companies. PCI member companies provide 46 percent of Connecticut's personal lines insurance coverage.

Connecticut Bill 6163 would further restrict the use of territorial rating in CT. Under the so-called "75-25" rule which currently exists in Connecticut, 75 percent of rates for any territory are based on the territory's claim experience and 25 percent are based on the statewide average claim experience. The current 75-25 rule shifts costs so that drivers residing in higher-risk areas pay lower prices than what their true levels of risk reflect and lower-risk drivers have had to pay inflated and unfair rates to subsidize those living in higher-risk areas. By changing the current rule to provide that 50 percent of rates for any territory are based on the territory's claim experience and 50 percent are based on the statewide average, this bill would exacerbate this situation and would force drivers residing in lower-risk areas to inequitably subsidize to an even greater degree the rates paid by drivers living in higher risk areas.

For the most part, losses incurred by city dwellers are higher than in rural and suburban communities, demonstrating why residents of urban areas should pay higher insurance premiums than their counterparts in other areas. There are a number of reasons for this including, among others, higher traffic density, higher number of injury claims and associated medical costs in urban areas and higher fraud and auto body repair costs in certain areas. Losses are higher in these areas even though losses are attributed to a given area based upon where the vehicle is garaged, so an accident experienced by someone who commutes to an urban area is not included among losses for that urban area.

It is only fair that premiums for policyholders living in areas with higher losses should reflect such increased costs. The use of rating by geographical area or territory is a proven predictor of risk and an equitable and statistically supported method of distributing costs among policyholders. No other state prohibits the use of geographical location as a rating factor. In fact, most states allow the use of territory with no restrictions whatsoever.

If territorial rating were further restricted as proposed by this bill, an even greater inequitable redistribution of premium than currently exists in Connecticut would result with forced subsidies for some policyholders at the expense of others. In fact, it is estimated that if territorial rating had been

previously restricted as proposed in this bill, it is estimated that premiums would have increased for two-thirds of the state's lower risk drivers. **PCI would submit that increasing premiums for two-thirds of the state's drivers in order to subsidize the premiums of certain urban drivers is not an equitable or desirable result.**

Attached hereto is an analysis of the impact of further restrictions on territorial rating which provides additional information relative to the potential premium impact of further limiting territorial rating as proposed in this bill.

For the foregoing reasons, PCI urges your Committee NOT to advance this bill.

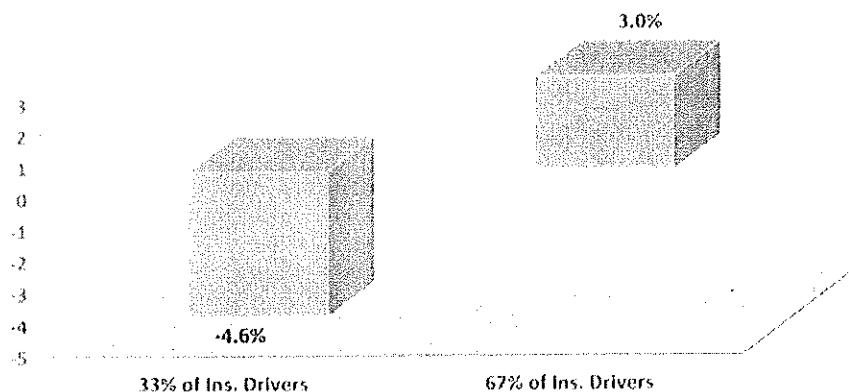
CONNECTICUT MOTOR VEHICLE INSURANCE: ANALYZING THE COST IMPACT OF FURTHER RESTRICTIONS ON TERRITORIAL RATING

Introduction and Executive Summary

Connecticut's automobile insurance territorial rating process currently follows a "75-25" rule which requires that 75 percent of the rate for each territory be based on the territory's own claims experience and the remaining 25 percent be based on statewide claims experience. Bill No. 6163 proposes to change this to a "50-50" rule so that rates would be derived from 50 percent of the territory's own claims experience and 50 percent of the statewide claims experience.

Had Bill No. 6163 already passed in 2009, then two-thirds of the state's insured drivers would have had an average increase of 3.0 percent in their combined liability and physical damage premium to pay for an estimated 4.6 percent decrease given to the remaining one-third of drivers.¹

Estimated Impact of Bill No. 6163
 On Liability and Physical Damage Premium
 if the "50-50" Rule Had Been Adopted in 2009



Along with higher premiums imposed on the majority of drivers, Bill No. 6163's additional constraint on territorial rating may have discouraged companies from operating in certain areas. This could have resulted in reduced competition and less availability and choice for Connecticut's consumers. Connecticut currently has the 9th highest average auto liability and physical damage insurance premium in the nation, 16.7 percent higher than countrywide (\$1,082 – CT vs. \$928 – U.S.).² This gap is likely to have widened, if Bill No. 6163 had already passed.

¹ PCI, based on data from Independent Statistical Service (ISS), *Connecticut Auto Compilation*.

² National Association of Insurance Commissioners, *2011/2012 Auto Insurance Database*, 2014 edition.

Detailed Economic Impact by Territory

The table below presents estimated changes in the combined liability and physical damage premium for various territories in Connecticut, had Bill No. 6163 already passed in 2009. As a group, those who would have benefited the most with premium decreases from a 50-50 rule live in the urban areas of New Haven, Bridgeport and Hartford. Residents of New Britain, Waterbury, New Haven and Hartford suburbs, Fairfield and Stratford would also have gained.

On the other hand, the ones who would have been adversely affected – by paying higher premiums – are drivers living in Westport, Waterbury suburbs, more rural parts of Hartford, Fairfield and New Haven Counties, New London, Norwich, Torrington, Darien, Greenwich, Norwalk and the rest of the state. These policyholders represent the vast majority of Connecticut drivers.

Implementing a "50-50" Rule Would Have Penalized Two-Thirds of CT's Insured Drivers			
Higher-Risk Territories	Percent Decrease	Lower-Risk Territories	Percent Increase
New Haven	-10.6%	Westport	+6.0%
Bridgeport	-9.4%	Waterbury Suburbs	+4.7%
Hartford	-7.7%	Rem. of State	+4.6%
New Britain	-6.6%	Rem. of Hartford County	+4.1%
Waterbury	-5.6%	Rem. of Fairfield County	+1.8%
New Haven Suburbs	-3.4%	New London, Norwich, Torrington	+1.4%
Hartford Suburbs	-3.2%	Darien/Greenwich	+1.1%
Fairfield and Stratford	-1.7%	Norwalk	+0.6%
Stamford	-0.8%	Rem. of New Haven County	+0.2%
Subtotal (32.9% of CT ins. drivers)	-4.6%	Subtotal (67.1% of CT ins. drivers)	+3.0%
Percentages reflect premium increases and decreases for both liability & physical damage coverages.			
<i>Remainder of County definitions:</i>			
a) Rem. of New Haven County excludes New Haven City & Suburbs, and Waterbury City & Suburbs.			
b) Rem. of Fairfield County excludes Bridgeport, Darien, Fairfield, Greenwich, Norwalk, Stamford, Stratford, and Westport.			
c) Rem. of Hartford County excludes Hartford City & Suburbs, and New Britain.			
<i>Source: PCI, based on ISS data</i>			

Conclusion

Insurance rates should first and foremost be a function of costs reflecting the insured risk. These costs vary from one geographical location to another, due to differences in exposure to accidents, vehicle thefts, road conditions, cost of health care and body shop repair, etc. To be fair, drivers should pay prices commensurate to their level of risk.

The use of territory as a rating criterion has been found to be a practical method of allocating costs among policyholders. This indicator is objective, clear and unequivocal, and based upon statistically supported data that show a wide variation in insurance losses among different regions. Any further restrictions placed on territorial rating would:

- Create an even greater inequitable redistribution of prices by imposing additional subsidies for some policyholders at the expense of the majority.
- Further discourage companies from operating in all areas, causing a larger shift in the marketplace and reducing competition.
- Make it more difficult for consumers in higher-risk areas to find insurance in the voluntary market and, as a last resort, they may find it necessary to use the involuntary mechanism, where coverage selection may be limited.
- Further discourage insurers from offering enhanced products and services.
- Undermine the ability to influence responsible behavior on the part of individuals, causing insurance costs and rates to rise even more.

Connecticut's current 75-25 rule already imposes certain restrictions on the insurance rating process, resulting in most drivers paying more than they should to subsidize other drivers. In today's economic environment, keeping costs down for the vast majority of the state's policyholders should be the most significant consideration. PCI therefore respectfully requests that Bill No. 6163 be defeated.

The Property Casualty Insurers Association of America (PCI) is a trade association consisting of more than 1,000 insurers of all sizes and types. PCI members represent 39 percent of the total general insurance business and 47 percent of the total personal auto market in the nation. In Connecticut, PCI members represent 56 percent of the personal auto market.